

Subject: RELEASE: City Controller Releases 2016 CAFR: Highlights City's Ongoing Structural Deficit

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City Controller Releases Annual Financial Report:
Highlights City's Ongoing Structural Deficit

Expenditures Growing Faster than Revenue

Download the Comprehensive Annual Financial Report [http://www.lacontroller.org/r?u=http%3A%2F%2Fwww.lacontroller.org%2Ffinancial reports&e=7847aafa817d7e4f257fae2aa2b1c53f&utm_source=controllergalperin&utm_medium=email&utm_campaign=cafr2016_press&n=1](http://www.lacontroller.org/r?u=http%3A%2F%2Fwww.lacontroller.org%2Ffinancial%20reports&e=7847aafa817d7e4f257fae2aa2b1c53f&utm_source=controllergalperin&utm_medium=email&utm_campaign=cafr2016_press&n=1)

Los Angeles - City Controller Ron Galperin has released the City's Comprehensive Annual Financial Report (CAFR) for fiscal year 2016. Also released was an online and interactive Community Financial Report -- with summary graphics, charts and data for the general public (cafr.controlpanel.la http://www.lacontroller.org/r?u=http%3A%2F%2Fcafr.controlpanel.la&e=7847aafa817d7e4f257fae2aa2b1c53f&utm_source=controllergalperin&utm_medium=email&utm_campaign=cafr2016_press&n=2).

Among the financial and budget challenges underscored by Controller Galperin:

- * Expenditures grew more than revenues for the first time since 2012, exacerbating the City's "structural deficit";*

- * After three years of strong revenue growth, General Fund revenues only increased by 2.3 percent;

- * Personnel costs (salaries, benefits, pensions) continue to drive expenditure increases;

* New challenges and priorities (homelessness, an aging workforce, technology needs, a possible decline in federal funding) will require significant fiscal discipline from City leaders.

"We must be prudent in our spending, and find new revenue sources that will allow the City to be financially stable into the future. If we don't, we will not be able to consistently deliver the quality services our residents expect and deserve," stated Controller Galperin.

In 2016, total General Fund revenue was \$4.9 billion, an increase of \$111 million (2.3 percent) over fiscal year 2015, while General Fund expenditures were \$4.7 billion, \$225 million (5.1 percent) more than 2015. The City's reserves are strong, but declined noticeably in 2016, from more than 7 percent in 2015 to just under 6 percent this past July.

The CAFR shows that, for the first time since 2012, General Fund expenditures grew faster than General Fund revenues. Based on current year trends, it looks like this will be true again in 2017. Unless the City identifies new and expanded revenue sources and finds ways to curtail spending, Los Angeles' efforts over the past years toward eliminating its structural deficit while restoring services will be undermined.

In the middle of the great recession, City faced a projected deficit of more than \$500 million. Cuts to staff and expenses, paired with relatively strong revenues, reduced the shortfall to less than \$100 million in 2015, before increasing at the end of 2016. This annual projected deficit represents what is known as the structural deficit.

The City's net pension liability, increased by \$570 million in 2016, to a total of \$8.2 billion, driven largely by investment returns under the assumed level.

In addition to the government-wide financial statements, the CAFR also includes the following:

- * Revenue and expenditure
- * Pension benefits, contributions, actuarial assumptions, and funding ratios for all three City pension systems
- * Net position, fund balances, and tax revenues;
- * Property taxes -- and top taxpayers
- * Debt and debt capacity;
- * Demographic and economic data;
- * Staffing and operating indicators; and
- * Condition ratings for City bridges

The CAFR is the complete record of the City's finances for the year that just ended. It contains the government-wide financial statements, consistent with generally accepted accounting principles (GAAP), and has been audited by Macias, Gini & O'Connell (MGO), a firm of independent certified public accountants. The full CAFR, Community Financial Report and all Controller audits, open data and more, are available at www.lacontroller.org http://www.lacontroller.org?e=7847aafa817d7e4f257fae2aa2b1c53f&utm_source=controllergalperin&utm_medium=email&utm_campaign=cafr2016_press&n=3 .

*A Structural Deficit is a budget deficit that results from a fundamental imbalance in government receipts and expenditures, as opposed to one based on one-off or short-term factors. While the City of Los Angeles ends up each year with a "balanced" budget, this is

often accomplished with one-time revenues and with service cuts.

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Los Angeles City Controller Ron Galperin · United States
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